A. P. Groll
Account Manager

February 12, 1998

To: Mark Young

Re: Salem Cigars

Dear Mark,

Listed below are some thoughts in response to the questions you asked in your letter of 2/8/98.

1. Will the $7.00 per box incentive work?/ How should payment be allocated?

$7.00 per box will get the product through wholesale to retail. It will not get us the quality placement at retail that we want for this new product. Since none of my direct accounts / subjobbers have salespeople that visit stores, there is no reasonable payment that will ensure placement of displays.

One way to deal with this is to package the cigars in a shipper-display as opposed to a cigar box. This display could be patterned after our old "pouch-tobacco" displays (Royal Comfort, Madeira Gold, etc.). Cigars would "stand-up" instead lying flat in a cigar box. As with our pipe-tobacco displays, once the display is opened (perforated section of shipper removed), it cannot be closed and stored with other cigars. This might improve our chances of getting at least back-counter space for this unit.

I feel that the $7.00 payment should be allocated as follows:

$3.50 - Direct Account / Subjobber
$3.50 - Retail distribution / display incentive

Again, paying retailers $3.50 will not guarantee quality display placements but it will move the product through the system quickly.

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Source: https://www.industrydocuments.ucsf.edu/docs/xkdp0000

2. Should payment be off-invoice or paid in the same manner as DPC?

Payment should definitely be handled in the same manner as DPC. Suppliers will pay the $3.50 retail allowance and be reimbursed when they provide a placement list to Kams/Ams. We should create a portion of this list in advance, enlisting suppliers' input to target key cigar outlets.

Product sold to subjobbers should be allocated based on the number of key cigar outlets shipped and Salem Box purchases. Subjobbers would be paid as listed above.

Direct Accounts should not be paid a distribution allowance for product sold to subjobbers.

3. What Direct Accounts / Subs should be offered this program?

- *Directs and subs that supply "Green Zone" stores.*
- *Suppliers that trade in menthol areas:*

Globe Wholesale (Direct)
Amsterdam Tobacco (Direct)
Gupta Wholesale (Subjobber)
Easy-Buying (Subjobber)
Bay Ridge Tobacco (Subjobber)
4th Avenue Wholesale (Subjobber)
Mohit Wholesale (Subjobber)

In talking to wholesalers / retailers about their cigar business, I found that the projected direct account markup (8%) is consistent with their cigar pricing structure. It appears, however, that retailers markup comparably priced cigars 70 - 80% as opposed to the 40% shown in the Salem Cigar example.

Sincerely,

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